

Fiscal Services Division

Legislative Services Agency

Fiscal Note

SF 2264 – Biodiesel Retail Tax Credit Enhancement (LSB 5826 SV)
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Fiscal Note Version – New

Description

Senate File 2264 amends Iowa's Biodiesel Retail Tax Credit, currently equal to \$0.03 per qualified biodiesel blended gallon sold during a calendar year. The amended credit would adjust the available credit according to the percentage of pure biodiesel used in the blend. The proposed credit would range from \$0.03 per gallon of blended B2 to \$0.30 per gallon of blended B20. The change is retroactive to January 1, 2008.

Background

Iowa's current Biodiesel Retail Tax Credit was created in HF 2754 (Renewable Fuel Incentive Act) approved during the 2006 Legislative Session. The credit for any blend of biodiesel and petroleum diesel equal to 2.0% (B2) biodiesel or above qualifies for the credit, as long as at least 50.0% of the diesel gallons sold by the retailer during the calendar year are B2 gallons or above. House File 2754 was signed into law May 30, 2006, and applied retroactively to gallons sold January 1, 2006, and after. The Department of Revenue reports that \$0.4 million in biodiesel credits were claimed on tax year 2006 returns for 12.6 million gallons of biodiesel.

Chapter 425A.33, Code of Iowa, requires retail fuel dealers in Iowa to report annually the number of gasoline and diesel gallons sold at each retail location, along with a breakdown of renewable fuel gallons sold. The first retail report was due January 31, 2008. The Department of Revenue reports that from information received and entered through March 12, a total of 120 million gallons of biodiesel will qualify for the biodiesel credit for tax year 2007.

Revised Estimate of the Fiscal Impact of HF 2754 (Renewable Fuels Incentive Act of 2006)

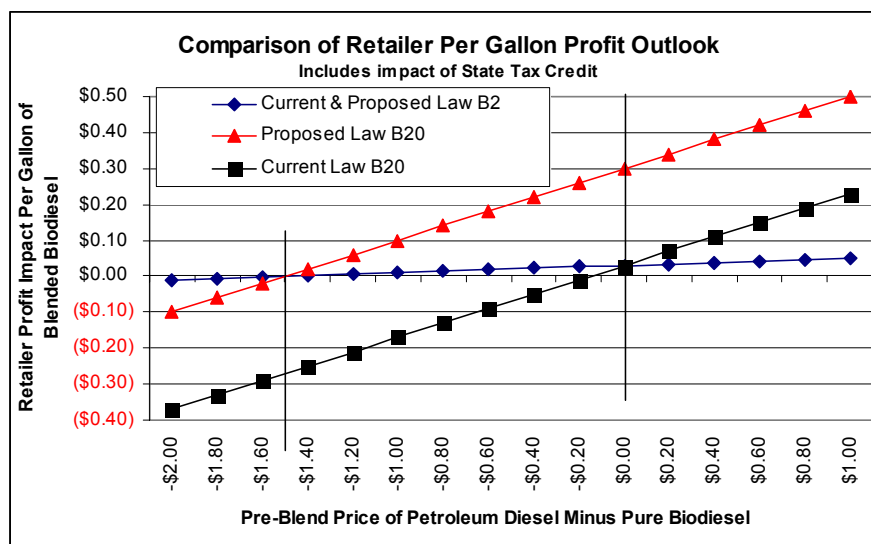
The fiscal note for HF 2754 projected CY 2006 tax credits would total \$0.5 million and CY 2007 credits would total \$1.5 million. The Department of Revenue reports while only \$0.4 million in credits were claimed based on CY 2006 sales, at least \$3.6 million in credits will likely be claimed based on reported CY 2007 sales. With the information available from the reports filed by retailers in January 2008, the original fiscal estimate for the current biodiesel tax credit must be revised.

The results of the revised estimate are presented in the following table. Over the life of the Biodiesel Retail Tax Credit Program, the revised estimate adds \$15.05 million to the total projected credit redemption. For FY 2008, the increase is \$2.16 million and \$0.38 million for FY 2009.

Revised Estimate of the General Fund Impact of HF 2754				
Dollars in Millions				
	2006 Session HF 2754 Original	2006 Session HF 2754 Revised	Change in Original Estimate	
CY 2006	0.54	0.38	-0.16	FY 2007
CY 2007	1.45	3.61	2.16	FY 2008
CY 2008	3.08	3.46	0.38	FY 2009
CY 2009	3.79	5.40	1.61	FY 2010
CY 2010	4.55	7.19	2.64	FY 2011
CY 2011	5.15	8.87	3.72	FY 2012
CY 2012	5.79	10.57	4.78	FY 2013
CY 2013	0.00	0.00	0.00	FY 2014
	<u>\$24.35</u>	<u>\$39.47</u>	<u>\$15.12</u>	

Assumptions

1. The current \$1.00 per gallon federal blender's credit will be continued for at least four more years.
2. According to the federal Energy Information Administration, highway, off-road, and farm diesel fuel use in Iowa totaled 771.1 million gallons in CY 2006.
3. Diesel consumption growth percents for the combination of highway, off-road, and farm use are projected to equal 1.2% per year.
4. The price of pure biodiesel¹ will exceed petroleum diesel by as much as \$1.50 per gallon for the next 18 months and the two products will return closer to parity after that time.
5. Over the next several years, customers will increasingly accept blended biodiesel as long as the retail price is comparable to, or below, the price of petroleum diesel.
6. The production capacity of Iowa's biodiesel plants exceeds 250 million gallons per year, more than enough to supply the Iowa market at the B20 level and below.
7. The proposed change in the Biodiesel Retail Tax Credit will significantly increase the incentive to sell biodiesel blends greater than B2. The following chart provides the change in retailer profit per gallon for B2 and B20 under current law and the proposed law.
 - Current and Proposed Law B2 – The proposed law leaves the available tax credit for B2 at \$0.03 cents per gallon. This level of subsidy covers the cost differential for situations where the wholesale price of pure biodiesel is up to \$1.50 pure gallon more than petroleum diesel. When pure biodiesel is \$1.50 more expensive than petroleum diesel, the \$0.03 per gallon tax credit covers the wholesale cost difference.
 - Current Law B20 – Under current law, all levels of biodiesel blends equal to B2 or above earn the retailer² \$0.03 per gallon of blended biodiesel sold. Under current law, the tax credit only makes a retailer "whole" in price situations where pure biodiesel is no more than \$0.15 higher per gallon than petroleum diesel.³
 - Proposed Law B20 – The proposed law would provide a higher tax credit level for blended biodiesel B5 or above, with a credit for B20 of \$0.30 per gallon. This level of subsidy will make the retailer "whole" for price situations where pure biodiesel is as much as \$1.50 per gallon higher than petroleum diesel. If the two products are equal price, the incentive to the retailer equals \$0.30 per gallon. If pure biodiesel falls \$1.00 per gallon below petroleum diesel the retailer incentive reaches \$0.50 per gallon.
8. For CY 2007, a significant amount of biodiesel blends above B2 were sold at the \$0.03 per gallon tax credit level.
9. The Biodiesel Retail Tax Credit is refundable, so it does not impact the calculation of the local option income surtax for schools.



¹ The pure biodiesel price is after the \$1.00 per gallon blender's credit has been claimed.

² The credit is earned as long as at least 50.0% of the retailers gallons are biodiesel blends, B2 or above.

³ This simple analysis ignores any added expenses the retailer must cover when offering blended biodiesel.

Fiscal Impact

The Biodiesel Retail Tax Credit available under current law will exceed the General Fund impact assumed for the original fiscal note. The Revenue Estimating Conference will address revisions to the original estimates for HF 2754 at the April 4, 2008, meeting. The fiscal note for SF 2264 is calculated on revised estimates for the 2006 legislation creating the credit.

The preceding graph shows the retail incentive under current law is significant for biodiesel blends above B2, as long as customers are willing to purchase biodiesel. The graph also shows the proposed credit change will greatly increase the profitable price range for higher blends. As long as the price of pure biodiesel is sufficiently close to petroleum diesel, the retailer will have substantial incentive to sell biodiesel blend fuel.⁴

The following table provides the projected net General Fund revenue reduction associated with the proposed enhancement to the Biodiesel Retail Tax Credit.

Fiscal Impact Estimate - SF 2264				
Dollars in Millions				
	2006 Session HF 2754 Revised	2008 Session SF 2264 Estimated	Fiscal Impact of Bill	
CY 2008	3.46	5.97	2.51	FY 2009
CY 2009	5.40	19.02	13.63	FY 2010
CY 2010	7.19	30.54	23.36	FY 2011
CY 2011	8.87	37.68	28.82	FY 2012
CY 2012	10.57	44.93	34.36	FY 2013
CY 2013	0.00	0.00	0.00	FY 2014
	<u>\$35.48</u>	<u>\$138.15</u>	<u>\$102.67</u>	

This fiscal estimate assumes the price of the two products will return to near parity within 18 months. If the price of pure biodiesel remains elevated, the General Fund impact would be expected to be less. If the pure biodiesel price falls below petroleum diesel, the impact would likely be greater.

Sources

Legislative Services Agency Analysis
Iowa Biodiesel Board
Iowa Department of Revenue
Federal Energy Information Administration

/s/ Holly M. Lyons

March 25, 2008

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

⁴ Price comparisons over the most recent 12 months show pure biodiesel ranging from \$0.04 cents below (April 2007) to \$1.50 above (March 2008) the wholesale price of petroleum diesel.